

JAPANESE TRADE AND INDUSTRY

PRESENT AND FUTURE

by

MITSUBISHI ECONOMIC RESEARCH BUREAU

1936

CHAPTER XXVIII

THE EXPANSION OF FOREIGN TRADE AND ITS BEARINGS  
ON THE NATIONAL ECONOMY.

1. General Survey

Seventy years have scarcely elapsed since Japan joined the comity of world nations and entered into commercial relations with foreign countries. Up to the time previous to the Sino-Japanese War (1894-95) Japan remained a purely agricultural country and the development of her foreign trade was insignificant. It was only after the close of that war that, stimulated by the sudden expansion of national strength and the rise of industries consequent upon the economic prosperity engendered by the war, the foreign trade of the country began to show steady development. The Russo-Japanese War (1904-05), in which Japan was again victorious, gave an impetus to further expansion, and also accelerated the growth of national industries. During the World War, which in a great measure checked the import of European and American goods to Asiatic markets, Japan attained to the position of a great industrial nation and obtained at a bound a footing on the world market in competition with the highly industrialized countries of the West. Although a part of the gains secured during the

World War had to be relinquished in the post-war period, the emergence of Japan as a serious competitor may be attributed to the opportunities provided by that war. The most recent phase of expansion owes its inception to the reimposition of the gold embargo which corrected the former overvaluation of the yen through a rapid depreciation of Japanese currency.

FOREIGN TRADE OF JAPAN PROPER. The development of the foreign trade of the Japanese Empire centres entirely on the trade of Japan proper, which claimed a share of 96.4% in exports and of 94.2% in imports on the average for the period from 1930 to 1935. Unless otherwise stated, the following investigation, therefore, relates to Japan proper only which includes Karafuto, the southern part of Sakhalin.

Prior to the outbreak of the World War, the annual total foreign trade of Japan proper exceeded only slightly the figure of 1,000 million yen, the average for the four years, 1911 to 1914, reaching 1,116 million yen. During the world War, trade advanced at a tremendous rate and in 1919 reached upwards of 4,272 million yen. Although the price advance during the war period was in a measure responsible for the increase, the expansion in volume was also astounding. The annual trade balance which in normal years showed an excess of imports was reversed during the war period as a result of unprecedented activity of the export trade, whilst imports were checked by the War.

The post-war period witnessed a reaction in the value of foreign trade which was accentuated by declining prices. After the great seismic disaster of 1923 in the Tokyo-Tokohama districts, the volume of trade advanced owing to the increase of exports through depreciated exchange rates and larger imports for the rehabilitation of the devastated region. In 1925, the value of both exports and imports exceeded the record figures of the war period, the combined total expanding to 4,873 million yen, the highest figure ever reached previously. The increase was, however, more pronounced in imports, the annual balance of trade during the seven years from 1920 to 1926 showing an unhealthy excess of imports of 396 million yen on the average.

The year 1929 was a turning point in Japanese foreign trade which entered a period of severe depression affecting both exports and imports. The removal of the gold embargo led to an overvalued condition of Japanese currency which the Government endeavoured to overcome by a policy of consistent deflation. The result of foreign trade in 1931 showed a decrease of about 47% in exports and of over 44% in imports compared with 1929, the total value of exports and imports declining by nearly 2,000 million yen in comparison with 1929. The main cause of the sharp decline in the trade of 1931 was the extraordinary recession in prices which averaged about 45% compared with the year 1929, whilst the volume was only about 3% less, and, indeed, showed an increase over the figure of 1930.

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Industry was severely affected by this shrinkage, and conditions were aggravated by the decline in domestic purchasing power on account of the depressed state of Japanese agriculture. This period, trying as it was, laid the foundation for the subsequent recovery on account of the elimination of many unsound concerns and the general rationalization of industries which was actively promoted by the Government. An opportunity for renewed industrial expansion presented itself by the depreciation of Japanese currency due to the reimposition of the gold embargo in 1931, the sudden activity of industries occasioned by a reflationary policy, and the creation of close economic relations between Japan and Manchoukuo. The value of foreign trade in 1935 showed an advance of 108.6% on that of 1931 and exceeded even the record figure of 1925.

The great expansion in foreign trade during the past few years of, of course, largely due to the depreciation of the yen which brought about an advance in prices of imported articles. This is verified by the fact that the increase in volume of imported articles during the five years from 1931 to 1935 did not exceed 15%, which compares with an advance of about 75% in value during the same period. It is characteristic that the price advance in exports was of only modest proportion, the expansion being attributable to the increase in volume rather than to the advance in prices. In contrast to the development of imports, the volume of exports during the five years increased by over 75%.

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A survey of the foreign trade in 1935 as compared with 1929 reveals a remarkable change in many respects, though there was no marked disparity in value. There was an extraordinary increase in volume, which was particularly pronounced in finished articles on the export side and in raw materials and semi-finished articles on the import side. This development indicates the rapid progress of industrialization in the past few years.

A considerable number of articles were added to the list of important export articles in the course of the past six years. Export articles reaching an annual total of over one million yen numbered 81 in 1929 and 136 in 1935. The market for both exports and imports widened considerably, particularly as regards exports, which were distributed over a number of new markets which had previously held little or no importance for Japanese trade.

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2. TRADE BALANCE AND INTERNATIONAL ACCOUNTS

The foreign trade of Japan results, as a rule, in an excess of imports every year, and this excess is greater in the trade balance of the whole Empire, including dependencies, than in the trade of Japan proper alone. An exception occurred in 1909 and in the four consecutive years from 1915 to 1918, when the World War effectively checked imports. The period from 1920 to 1928 witnessed a particularly heavy excess of imports, which may be traced to the greatly enhanced purchasing occasioned by the war-time boom, the requirements for reconstruction of areas devastated by the earthquake of 1923, and last but not least, to the relatively high level of prices ruling in the country compared with international standards.

The excess of imports, which reached the highest mark (over 300 million yen) in 1928, subsequently declined annually to about 58 million yen for the whole empire in 1932 due to a marked decrease in the volume of imports and a slight improvement in the export trade. Notwithstanding the marked development of the export trade in recent years, the international trade balance has lately been anything but favourable because of the expansion of imports of raw materials and semi-finished goods brought about by the industrial activity in Japan proper. The excess of imports

in 1934 aggregated 142 million yen, including 111 million yen for Japan proper, the net excess being 129 million yen when the export excess of silver is deducted. A similar tendency prevailed throughout the first half of 1935, but there was an unexpected improvement in the third quarter on account of a large increase in exports, which reduced the total excess of imports for the whole year to 14.7 million yen, and even brought about an export excess of 26.6 million yen for Japan proper. This favourable turn was entirely due to the steady increase of exports, the increasing tendency of imports continuing unabated.

The international debit account, as reflected by the excess of imports, in trade is ordinarily covered by the proceeds from invisible accounts due to Japan. The principal receipts in invisible trade consist of revenue from shipping services, profits from Japanese enterprises abroad, remittances of Japanese emigrants, insurance receipts, expenditure in Japan by foreign tourists, etc. The years 1930 and 1931 were abnormal in that not only did invisible receipts show a considerable decrease, but the interest burden on foreign loans was substantially increased by the depreciation of Japanese exchange rates. At the same time, there was a large outflow of funds in the form of Japanese investments and withdrawals of capital invested by foreigners in Japan. The international balance of payment was therefore heavily against Japan, which had to be covered in 1931 by the shipment of specie totalling about 411 million yen. In the following year (1932), the situation improved, due to an increase in receipts and the practical disappearance of the abnormal flight of capital in invisible trade accounts.

In 1933, invisible export receipts were sufficient to cover the adverse trade balance and still leave a credit of about 91 million yen due to Japan, this being the first substantially favourable balance of payment since the World War. In 1934, the excess of receipts in invisible trade accounts recorded a large increase over the figure of the previous year, but the investment of funds in Manchurian enterprises resulted in an adverse balance of payments of about 121 million yen.

Apart from the aforementioned ordinary trade and invisible trade accounts, there are other items of international debit and credit accounts, such as funds held abroad by the Japanese Government in foreign markets, etc., which must also be taken into consideration. These items are, however, not included in official statistics, and their condition and value cannot be ascertained. The total amount is probably not large enough to modify to any great extent the balance of accounts as set forth in the foregoing Table 366.

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## 3. TRADE DEVELOPMENT AND INDUSTRIAL PRODUCTION

GENERAL SURVEY. The great expansion of Japanese industry during and after the World War coincided with a remarkable advance in foreign trade, both attaining their fullest development in 1925. In that year, the estimated total national production of Japan proper approximated 13,330 million yen, or more than four times the figure of the pre-war period of about 3,100 million yen, while foreign trade also quadrupled, showing a total of about 4,678 million yen. The following year (1926) saw a remarkable reactionary decrease in both exports and imports, which was accentuated by a sharp decline in prices, but the situation improved before long, and in 1929, the total production again increased to 12,915 million yen, while foreign trade also advanced to 4,451 million yen. Still, compared with the figures of 1925, both production and trade in 1929 showed a decrease of about 400 and 500 million yen in each case.

Mainly affected by the fall of prices through deflation and the decline of purchasing power consequent on the world-wide depression, the volume of industrial production and trade showed a big decrease during the period from 1929 to 1931, the rate of decrease being greater in trade which declined by 45% against 35% in production. The country,

however, emerged from the depression early in 1932, but in the subsequent development of production and trade the former position was reversed. While production in 1933 increased by 32% over the figure for the year 1931, the advance in foreign trade reached 59%. Accurate figures covering the value of production in 1934 and 1935 are still unavailable, but there appears to have been an estimated increase of about 20%, the total for 1935 exceeding the figure for 1925 by a good margin at an estimated production value of about 15,000 million yen. Meanwhile, foreign trade reached 4,970 million yen, an increase of 18% over the figure of the previous year. This proves that in the economic development of the country, foreign trade played a very important role as a more sensitive factor than national production.

It is a patent fact that the conspicuous increase in foreign trade since 1932 was largely due to the depreciation of the exchange rate. This was particularly the case as regards the volume of the export trade. Although the volume of both exports and imports continued to increase, the advance was greater in the export trade whose development also exceeded the expansion of industrial production. The volume of industrial production indicated an increase of 42% in 1935 compared with 1931, whilst exports advanced by 75% during the same period.

RATIO OF PRIMARY AND INDUSTRIAL PRODUCTS. .. division of national production into primary and industrial products reveals the interesting fact that both in production and the export trade, the ratio of industrial products tends to advance, a development which has been much accelerated during

the past few years and indicates the growing industrialization of the country. Of the national production in 1929 about 63% consisted of industrial products, and this ratio increased to 72% in 1934, compared with 45% in 1914. In the export trade, the ratio of industrial products exceeded 90% in recent years, including finished goods of about 60% in 1935, compared with 45% in 1929. A contrary tendency has been witnessed in the import trade, primary products advancing from 61% to 68% in the same period.

\* \* \* \*

OUTPUT OF AND FOREIGN TRADE IN PRIMARY PRODUCTS. The output of primary products in Japan proper was valued at 5790 million yen in 1925, but thereafter declined to only 2,862 million yen by 1931, advancing again to 4,063 million yen in 1933. On the other hand, the output of industrial products kept on increasing steadily during the same period without a break, the total value being returned at 6,262 million yen in 1933. Among primary commodities agricultural produce predominates, representing about 65 to 70% of the total value. As will be seen from the reference made to the import trade, the domestic output of primary products must be supplemented by large supplies drawn from abroad. About 21 to 31% of the total requirements are being filled by imports, the exports being negligible, amounting to about 3% of the national production. In view of the great industrial expansion, raw material imports are gradually increasing.

PURL: <http://www.legal-tools.org/doc/2912de/>

\* \* \* \*

The domestic output of primary products may be classified into foodstuffs and raw materials, the former representing the largest part of the total home production, and attaining almost to a state of national self-sufficiency. The national production of raw materials accounts only for less than 20% of the primary production, and for as much as 90% of the imports of primary products in 1933.

The balance of trade in primary products results in an enormous excess of imports which has increased from 674 million yen in 1931 to 1,541 million yen in 1935. The increase is counterbalanced by an equally sharp advance from 1,013 million yen in 1931 to 2,265 million yen in 1935, in exports of industrial products.

OUTPUT OF AND FOREIGN TRADE IN INDUSTRIAL PRODUCTS.

Excepting the period of depression between 1929 and 1931 inclusive, the manufacturing industry in Japan has been making a fair development on the whole. Industrial production, which showed a great expansion during the World War, naturally did not remain unaffected by the post-war reaction, but had already outstripped the peak of the war boom during the period from 1921 to 1925. In the course of the following four years up to 1929, production again increased by 31% in volume and 8% in value, the relatively small advance in value being the result of the general downward tendency of prices. The world depression, however, put an abrupt end to the expansion of industry and the output of industrial products decreased by 9% in volume and 32% in value during the period from 1929 to 1931. The decline was, however, short-lived and signs of recovery were already in evidence

in 1932.. In 1933, production again increased both in volume and value, exceeding the figure of 1929. Authentic production figures for 1934 and 1935 are not yet available, but the development of the index of industrial production leads to an estimate of nearly 11,000 million yen for 1935. Comparing this estimate with the period before the World War, when industrial production totalled about 1,400 million yen, the extraordinary expansion of Japanese industry becomes evident.

The textile industry occupies a predominant position in production, with a total output in 1933 of about 3,049 million yen, followed by the chemical industry, foodstuffs and provision manufacturing, etc. Development, however, has been most rapid in the metal industry, mechanical engineering and the chemical industry, the relative position of these branches of the manufacturing industry in recent years changing as follows during the years from 1929 to 1935.

Decline: textile industry from 41.5% to 36.8%, foodstuffs and provision industry from 13.6% to 12.0%.  
Advance: metal industry from 5.8% to 11.4%, mechanical engineering from 3.4% to 9.7%, and chemical industry from 13.6% to 16.7%.

The expansion of manufacturing industries and the consequent growth of industrial production has naturally resulted in an increase of raw material requirements. Consumption of raw and other materials in the manufacturing industries declined from a ratio of 63.7% in 1929 to 60.2% in 1932, but increased again in 1933 to 62.3% due to the price advance. About 27% of the raw material requirements are annually imported, but this percentage has probably been exceeded in 1934 and 1935.



TABLE 370

RAW MATERIALS USED IN INDUSTRIAL PRO-  
DUCTION AND IMPORT RATIO  
(In million yen)

	1929	1930	1931	1932	1933	1934	1935
Industrial production	8149	6417	5553	6368	8282	--	--
Estimated value of raw materials consumed	5620	4412	3728	4198	5534	--	--
Ratio of raw materials to industrial production(%)	63.7	62.8	61.3	60.2	62.3		
Imported raw materials & semi-manufactures	1579	1065	865	1040	1510	1830	1976
Ratio of imported raw materials to total consumed (%)	28.1	24.1	23.2	24.8	27.0	--	--

The cost of raw materials in production differs widely according to industry, ranging from 72.3% in the spinning industry to 271.5% in the ceramic industry and 40.1% in mechanical engineering, according to conditions which obtained in 1933. The textile industry not only loads other industries in the ratio of raw material cost, but is also most dependent upon foreign supplies.

Taken as a whole, Japanese industry must look to foreign countries for about one-fourth of the total volume of raw materials required, which corresponds to one-fifth of the total value of production. These imports are counter-balanced by the export, in the form of manufactured articles, of a portion of the national industrial production, the ratio

of these exports to total home production fluctuating between 24% in 1929 and 18% in 1931, but increasing to 21% in 1933. The ratio for 1934 and 1935 is still unknown, but in view of the fact that the volume of exports surpassed that of production, there is no doubt that the ratio has continued to advance.

The great extent to which Japanese production is dependent upon the export trade is revealed by a comparison with similar statistics abroad. The degree of dependence of American production on exports was 5.3% in 1929 and only 3.2% in 1933. In great Britain, the share in 1930 was about 20%, approximately the same as in Japan, but may have decreased in later years. The ratio of exports to industrial production in Germany declined from about 15% in 1929 to only 3% in 1934.

The conspicuous advance in the ratio of exports to total industrial production indicates the important part played by exports as a stimulating force in the great industrial expansion of recent years. The ratio of exports to production was highest in the textile industry with 35%, but the recent industrial expansion has notably increased the share of exports in miscellaneous industrial products, metal manufactures, and machinery and tools.

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RAW COTTON. Raw cotton ranks first in the list of imports, although its relative importance slightly declined, representing 29% of the total imports in 1935. The production of cotton in Japan is insignificant compared to the extent of the cotton spinning industry, the remarkable development of which resulted in a steady expansion in the volume of raw cotton imports. The value of these imports, however, experienced a sharp decline from the highest record of 923 million yen in 1925. Though again increasing since 1932, the total value for 1935 was 22.6% less than for 1925, while the volume showed an increase of 12.3% over 1925 and of 28.3% over 1930.

The principal countries supplying raw cotton are the United States, British India, Egypt and China, about 90% coming from the United States and British India. The present trend, in view of the change of Japanese cotton spinning from coarse counts to medium and finer counts, is towards a preference for long-fibred American to the detriment of Indian cotton. This tendency is, however, influenced by the relative price conditions as shown by the recent increase of Indian and Egyptian cotton, following the sharp price advance in American cotton.

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WOOL. According to a survey made by the Ministry of Agriculture and Forestry, wool consumption in Japan reached 218,002,275 lbs. in 1933. As domestic production accounts for only about 200,000 lbs, practically the entire wool requirements must be imported. With the rapid development of the Japanese woollen spinning industry, imports are steadily rising, the expansion being particularly marked after the reimposition of the gold embargo, notwithstanding the depreciation of Japanese currency. In contrast to the increase of wool, imports of woollen and worsted yarns and tissues declined sharply, particularly woollen tissues which are now being exported on an expanding scale.

Wool imports are practically monopolized by shipments from Australia, but there is a tendency lately to import wool from other countries in order to equalize trade balances.

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IRON ORES, IRON AND STEEL. The iron and steel industry in Japan witnessed many years of depression until 1931, but with the expansion of armaments, great activity ensued in the following years. As a result of the development of the steel industry, Japan at present approaches to a state of self-sufficiency in steel products, and relative imports registered a sharp decline. Although these imports increased again in the past two years, the ratio of imports to domestic production was only 11.2% in 1934. However, the imports of pig iron have increased in recent years as domestic production was unable to meet the demand from steel producers.

Resources of iron ore in Japan are very poor, and large supplies must be imported annually. These imports have more or less risen since 1933, but not wholly proportionate to the increase of pig iron production, evidencing an advance, though small, in the domestic ore output.

Iron ores of good quality at a comparatively low cost are imported chiefly from the Straits Settlements and China. This helped greatly the development of Japan's iron and steel industry. Although yet small, imports from Australia in the past few years have shown a marked advance. PURL: <http://www.legal-tools.org/doc/2912de/>

The principal sources of pig iron are Manchoukuo and British India. In addition to pig iron, scrap is now in great demand, the source of which at present is the United States.



Steel products are supplied by many countries, chief among which are the United States, Germany and Belgium, with a share of more than 20% each. Imports from Great Britain come next, but are now less than 10%.

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CRUDE AND HEAVY OILS. Japanese production of crude oil is only about 2 million hectolitres and a large part of domestic requirements must be imported. Consumption of mineral oils shows an increasing tendency on account of the wider use of motor cars and internal combustion engines. Accordingly, the imports of mineral oils are bound to expand in the future, which will inevitably increase dependency upon foreign products.

Except 1930 and 1931, the value of mineral oil imports increased annually, and in 1935 amounted to ¥152,647,000, an increase of 64.3% compared with the value for 1929. In volume, imports kept on increasing without any recession owing to the sharp advance in crude and heavy oils. Imports of refined oil showed a slight rise in quantity, but a decrease in value.

The increase in the import of crude and heavy oils is the result of the development of the petroleum refining industry in Japan and the wider use of Diesel engines.

The greater part of the crude and heavy oils is imported from the United States. The Netherlands East Indies and British North Borneo are minor sources. A small quantity is imported from Manchoukuo where these oils are produced from oil shale.

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CRUDE RUBBER. Imports increased sharply as a result of the great development of the Japanese rubber industry, following the reimposition of the gold embargo.

The annual imports were already 40 million yen in 1926, but declined in the following years. The past few years witnessed a revival, imports in 1934 amounting to 57 million yen. The volume of imports showed a sharp increase excepting a slight recession in 1930 and 1931. This tendency is still maintained in 1935.

Imports are in the main from the Straits Settlements and the Netherlands East Indies. Only small quantities are imported from British India and French Indo-China.

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MOTOR CARS. The demand for motor cars is increasing by several thousand every year, and the number at the end of October, 1934 was 104,932. Despite every assistance given by the Government authorities in the form of subsidies and protective duties on imports, the motor car industry in Japan is still far behind the chief producing countries, and the present demand cannot by a long way be met by domestic manufactures. The import value of motor cars and parts amounted to 34 million yen in 1929, but in the following years the figures rapidly declined. The value for 1934, however, showed a sudden expansion, but the high peak of 1929 was not yet exceeded in 1935.

The imports of complete cars registered a peak in 1929, but have since decreased to about one-eighth in 1935. This fact indicates that the motor car industry in Japan has now attained to the first stage of self-sufficiency at which the imports of complete cars are checked, and instead, the imported parts are assembled at home.

More than 90% of both motor cars and parts are imported from the United States. This is chiefly due to the fact that such firms as Ford and General Motors have established assembling plants in Japan and are, therefore, able to offer lower prices. Great Britain and Germany rank next, but imports are negligible when compared with cars of American make.

TABLE 418REPORTS OF MOTOR CARS AND PARTS  
(in 1,000 yen)

	1929	1931	1932	1933	1934	1935
Motor cars	9546	3378	2894	1864	3357	3202
Motor car parts	<u>24063</u>	<u>12951</u>	<u>11927</u>	<u>12007</u>	<u>28945</u>	<u>29387</u>
TOTAL	33608	16329	14821	13871	32302	32589
PRINCIPAL SOURCES						
U.S.A.	31047	15817	13838	13288	31553	31255
Great Britain	528	162	470	453	402	406
Germany	75	74	394	93	105	270

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TABLE 419IMPORTS OF FOODSTUFFS  
(in 1,000 yen)

	1929	1931	1932	1933	1934	1935
FOODSTUFFS	271156	158612	160671	173185	174448	192605
Ratio to						
total						
imports.(%)	12.2	12.8	11.2	9.0	7.6	7.8
Beans &						
Peas	78746	37349	42070	50345	51968	71649
Wheat	70896	32936	49572	44384	40749	43199
Salt	4415	4280	5556	11709	14839	14540
Sugar	31160	15603	3332	12794	9679	12701
Indian						
corn	3672	3048	2415	103	2	7599
Meat	7878	9548	4999	5537	7382	6936

TABLE 419

IMPORTS OF FOODSTUFFS  
(in 1,000 yen)

	1929	1931	1932	1933	1934	1935
FOODSTUFFS	271156	158612	160671	173185	174448	192605
Ratio to						

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## CHAPTER XXII

## JAPANESE FOREIGN TRADE POLICIES

## 1. General Survey

Trade policies throughout the world since the onset of the economic depression have been characterized by national control of foreign trade with the main object of checking imports. The control of imports arose from the necessity to protect internal markets and the international balance of payments. This last consideration also led to strenuous efforts to promote the export trade, which conflicted with the import control exercised in a very large part of the world. The net result of these two entirely opposing policies was that tariff walls were consistently raised, and international markets narrowed, with a consequent severe contraction of world trade. The suspension of the gold standard, which followed in rapid succession in a number of countries, almost invalidated the increase in customs tariffs, and compelled the adoption of more direct measures such as restriction of downright prohibition of imports, import license systems or the Government control of imports. The failure of the World Economic Conference in 1933 led to the formation of blocs and autarchic principles which further crippled international trade, and naturally led to individual negotiations between countries as a measure to tide

over the present difficulties. Trade treaties changed to compensation systems, as countries with unfavourable trade balances endeavoured to readjust their foreign trade relations. Although the reciprocal and compensation principle removed some obstacles to world trade, it raised new difficulties in the countries still adhering to the gold standard, by fostering trade within circumscribed blocs.

The remarkable advance of Japanese foreign trade after the reimposition of the gold embargo was especially noteworthy as it occurred at a time of universal trade contraction. Japanese articles have invaded every corner of the world market under the double advantage of low exchange rates and production costs. It is easy to understand why import restrictions should be particularly directed against Japanese goods, as evidenced by the successive institution of quotas, surtaxes and other forms of discriminatory treatment in various countries.

The expansion of the Japanese export trade has continued in spite of these numerous obstacles, but the almost universal adoption of the compensation system is expected to add a new force to trade restrictions, particularly in Central America, South America and the African colonies.

The change in commercial policies, which has greatly interfered with international trade during the past few years, has not been without influence on the trade policy of Japan. Poor in natural resources and depending much upon imports, the problem of checking imports in order to protect domestic industries required serious consideration. Trade policy in the past was built on fairly liberal principles. The reactionary period

following the World War and the universal debasement of currencies, however, accentuated the protective tendency of the Japanese customs tariff, but rates in most instances continued moderate, for the decline of the yen since the reimposition of the gold embargo was sufficient to check the import of finished articles. Emphasis was rather laid on the protection and promotion of the export trade, and various Government measures tending in this direction were successively passed by Parliament in recent years. In imports, Japanese trade policy has been forced to give consideration to existing restriction on Japanese goods and to the balance of trade with foreign countries. A survey of Japanese foreign trade during the past few years reveals that there has been a substantial excess of exports to countries with liberal trade policies and to new markets, while imports generally exceeded exports in trade with countries adhering to protective policies and import restrictions. This situation finally led to the enactment of the Trade Protection Law, which was recently invoked for the first time against Canada.

## 2. Tariff System

The Japanese import tariff as altered in 1910, was not subjected to a general revision up to the year 1926. A few minor sectional changes were, however, made during the period 1920-22, and an advalorem duty of 100% was imposed in 1924 on a few items, this duty being commonly known as the luxury tax, the object being to encourage individual economy during a period of financial retrenchment. The general tariff revision of 1926 aimed at greater protection of domestic industries, the internal price level being at that time notably higher than international standards.

During 1929, the tariff rate on timber was raised, and the luxury duties were abolished and included in the ordinary tariff at much lower rates. The universal trend towards protective trade principles stimulated a general revision which was carried out in June, 1932, the new tariff advancing duties upon wheat and more than twenty other items, with the object of protecting domestic industries. Other commodities, with the single exception of newsprint paper, were also subjected to an increase of 35% in specific duties, while the only reductions were made on timber and four other items.

### 3. Facilities for Trade Promotion

Facilities for promoting Japanese foreign trade have made remarkable progress in recent years due to the wholehearted cooperation between the Governmental and civil organizations. The trade intelligence services have been vastly improved through the increase of consulates and the establishment of overseas trade information bureaux and other intelligence organs. The increase in the number of commercial museums, supported by the Japanese Government and civil organizations has also enhanced the value of foreign trade publicity.

Principal activities for the promotion of foreign trade are as follows:

Export Compensation System. The Export Compensation Law was promulgated in May, 1930 and became effective in August 1st, 1930. The Law authorizes the Government to compensate the losses incurred through the purchase of export bills on shipment to certain undeveloped markets.



The markets specified have been successively extended, and, at present, include almost all parts of the world, excepting old markets such as Great Britain, the United States, British India and the Netherlands East Indies.

TABLE 491

Compensation Bills and Losses  
(in 1,000 yen)

FISCAL YEAR	1930	1931	1932	1933	1934
Compensation bills	1,903	4,957	9,425	21,020	27,625
Loss compensated					
Budget maximum	938	1,876	2,314	9,313	9,313
Actual compensation	15	33	337	541	--

The Export Compensation Law has also been enforced in Taiwan since October 10th, 1934. Some municipalities have instituted compensation systems of their own in order to promote the export trade of local industries.

Exporters' Associations. The original purpose of these associations organized under the Exporters' Association Law, was to promote the export trade through joint facilities and measures, including joint consignments and overseas branches. The activities of these associations have in recent years been extended to the control of the export trade.

Export Goods Inspection. According to official regulations enforced since 1928, exports of specified articles are prohibited unless they have previously passed an examination by associations, federations, prefectural ~~Bureau of~~ <sup>Public Health</sup> ~~Health~~ <sup>Sanitation</sup> ~~Sanitation~~ <sup>Department</sup> ~~Department~~ <sup>of</sup> ~~of~~ <sup>the</sup> ~~the~~ <sup>Ministry</sup> ~~Ministry~~ <sup>of</sup> ~~of~~ <sup>Commerce</sup> ~~Commerce~~ <sup>and</sup> ~~and~~ <sup>Industry</sup> ~~Industry~~. There also exists a Government Inspection System which operates for some articles, notably, raw silk (1926), silk tissues (1928) and rayon tissues (1929).

#### 4. Control of Exports and Imports

In view of the universal tendency towards import restriction, the Japanese Government have been compelled to resort to individual negotiations with countries discriminating against Japanese goods, and this course led automatically to increased Government intervention in the export and import trade.

Indo-Japanese Commercial Convention. The Indo-Japanese Commercial Convention was the first example of individual negotiations which resulted from the advance in Indian tariff rates to check the fast increasing influx of Japanese cotton textiles. Communications between the two Governments concerned led to the opening of trade negotiations in Simla in September, 1933, as a result of which a new Indo-Japanese Commercial Convention was officially signed at London on July 12th, and put in operation on September 14th, 1934. The Convention contains a quantitative agreement, by which Japan is required to purchase one million bales of raw cotton in return for a maximum export quota of 325,000,000 yards of cotton tissues.

Quantitative Trade Agreements with the United States and Great Britain. As a result of an agreement concluded between the Japanese and American Governments, the annual export quota of pencils to the United States was fixed at 125,000 gross in April, 1934, and that of cotton carpets at 7,970,000 square yards in April and May, 1934, respectively. In October, 1935, another agreement was concluded with the United States regarding cotton tissues exported to the Philippine Islands, by which the Japanese Government voluntarily limited Japanese exports to that destination to within 45,000,000 square metres.

A quantitative agreement was also concluded with Great Britain in May, 1934, regarding Japanese exports of electric bulbs to that country.

Anglo-Japanese and Dutch-Japanese Negotiations. With the Indo-Japanese negotiations in full swing, the President of the Board of Trade of the United Kingdom proposed more comprehensive negotiations between British and Japanese cotton goods manufacturers, which materialized in the form of civil negotiations opened in London on February 14th, 1934. The opinions of the participating parties were, however, completely at variance in regard to whether the possessions, other than the Dominions, should be included in the "agreement zone", and the parley finally failed on March 14th. As the result, following Mr. Runciman's declaration on May 7th, 1934, an import quota system relating to cotton cloth was enforced in British Crown colonies.

In view of the remarkable advance of Japanese goods in the Netherlands East Indies, which adversely affected the import trade from the Netherlands and Lancashire, emergency import restrictions were enacted in the Netherlands East Indies in 1933. The endeavour of the Netherlands East Indian Government to restrict Japanese imports took still more concrete form in its proposal to commence trade negotiations at Batavia, which opened on June 8th, 1934. In these negotiations the Japanese Government insisted upon the conclusion of a gentlemen's agreement and the rejection of discriminatory treatment, and agreed to take proper measures based upon reciprocal trade if this demand was acceded to. The Netherlands East Indian Government, on the other hand, wished the negotiations to be based upon the quota and barter system. The negotiations became deadlocked

in March, 1935, following the rupture of the Dutch-Japanese Shipping Conference, and the two Governments agreed to open discussions again in April, 1935, but no agreement has yet materialized.

Similar trade negotiations are now pending with Australia and Egypt.

Adjustment of Trade Relations with Central and South America, and Africa. Japanese trade with these regions has shown a marked development during the past few years, but the great predominance of exports has given rise to import restrictions on Japanese goods. In view of the demand for compensatory imports, attempts have been made to readjust trade relations through the purchase of wool, wheat and a few other products from Argentine, Uruguay and other South and Central American countries. Exporters' associations were established in rapid succession for the purpose of collecting special control commissions from exporters to those countries, to obtain funds for compensatory imports. However, such "compensation" imports have so far been negligible. In the case of Egypt, strenuous efforts have been made to balance the trade through the import of Egyptian cotton and the inauguration of regular calls at Alexandria by N.Y.L. liners. For the purpose of balancing trade relations with the Union of South Africa, South African wool was partly substituted for Australian wool through the efforts of the Ministry of Foreign Affairs, Japanese woollen manufacturers and exporters to South Africa sharing the loss resulting from the wide margin in prices. This great difference in price has up to now prevented any notable development of imports from South Africa, and trade relations continue to remain one-sided.

#### 5. Trade Protection Law

The trade policy of Japan aims principally at the protection of domestic industries and there has been almost no occasion to resort to the retaliatory tariff system, although it is legally provided for in the Customs Tariff Law. With the world tendency against imports of Japanese goods, Japan was forced to take emergency measures. The Trade Protection Law was enacted in April, 1934, with the purpose of protecting the export trade and adjusting trade balances.

This Law provides that the Government may prohibit or restrict imports of specified articles, and impose additional duties, as a measure to counter discrimination against Japanese trade abroad. The Law, effective for only three years, is also meant to provide a weapon in conducting trade negotiations with foreign Governments.

An Imperial Ordinance relating to the operation of this Law was issued on July 20th, 1935, and announced that Canada was the first country to which it was applied.

EXCERPT FROM PAGES 615-621.



JAPANESE TRADE AND INDUSTRY

PRESENT AND FUTURE

by

MITSUBISHI ECONOMIC RESEARCH BUREAU

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CHAPTER XXIV

CONCLUSION

The foregoing survey of the economic situation in Japan shows that 1930 and 1931 were the worst years of depression, while uneasiness continued to prevail in the following year, due to the aggravation of international relations consequent on the outbreak of the Manchurian incident and the growing distress in rural districts. Conditions, however, changed entirely after 1932, and industrial development in the following years was extremely rapid, the progress achieved in 1934 and 1935 being perhaps the most remarkable in the history of the country. This industrial development and the consequent advance of foreign trade still continues though at a slower rate of progress. The astounding expansion of Japanese trade at a time when other countries have not yet fully recovered from the world-wide depression, has not unnaturally attracted the attention of foreign observers.

Essential factors which have contributed to this development of Japanese industries are, according to general opinion, currency depreciation, a vast increase in Government expenditure, and a scale of wages which, in spite of a mild type of inflation, has hardly risen. As regards currency depreciation, it should be borne in mind that the yen was

probably substantially overvalued, as expressed in purchasing power, during the years prior to the reimposition of the gold embargo, hence part of the subsequent depreciation should be considered as a correction of the previously existing exaggerated price structure. The decline of the yen, therefore, occasioned only a slight reactionary advance in prices of domestic commodities, and, though an important contributing factor, does not fully explain the expansion in competitive power of Japanese industries since 1933, by which time the decline had been brought to a standstill.

The Government emergency relief measures and financial inflation served to furnish an outlet for idle funds, and at the same time stimulated the national purchasing power. Whilst this development was not confined to Japan, it is noteworthy that the cost of production has been very much lowered in Japanese industry, partly on account of increased labour efficiency, in contrast with the tendency in similarly situated industrial countries which have witnessed a sharp advance in production costs. The general assumption that the cheapness of Japanese goods is entirely due to low wages cannot be maintained in view of the well-known fact that low wages and a low standard of living do not, by themselves, constitute a factor making for the low cost of production. The important point is the relationship between standard of life and standard of efficiency, and available evidence points to this relationship being affected rather by technical improvements (rationalization) than by inability of the Japanese standard to change."\*

\* Prof. T. H. Gregory, "Memorandum on Japanese Competition," London 1935, p. 15

The economic progress recently achieved would not have been possible but for the greatly strengthened position of Japanese industry since the World War, and the technical and administrative rationalization measures adopted during the years of depression. In this sense, the industrial advance is not a temporary phenomenon based entirely on currency depreciation and financial inflation, but is due to deep-rooted changes in industrial organization.

There are, however, many problems confronting Japanese economy in the future. One of the most urgent is the necessity of supporting the increasing population, which is expanding at a rate of nearly one million per year. Two methods may be suggested for meeting this situation, that is emigration and absorption in new industries. As to the former, the tendency in many parts of the world to restrict or prohibit Japanese immigration renders this outlet hopeless. It is true that emigration to Manchoukuo offers some possibilities, but not on a scale adequate to solve the population problem. Accordingly, the industrialization of the country and the expansion of overseas trade present themselves as the only solution.

Of the total national production, agriculture now accounts for only about one-fourth, but affords employment for about 47% of the population. The density ratio of the population to cultivated land in Japan is the highest in the world, and agricultural production capacity has almost reached the maximum; therefore it is evident that agriculture cannot be depended upon to absorb the expanding population and to support a future advance in the standard of living. On the

contrary, owing to the distress prevailing in the agricultural areas, which unhappily continues, there has been for many years a steady exodus of people to the cities. The degree of self-sufficiency in agricultural products is steadily declining due to the advance of industrialization, and about one-fourth of the country's requirements has to be imported. In staple foodstuffs, Japan has managed so far to be self-supporting, but it is probable that increased importation will be necessary in order to support the growing population. In the face of this situation, it is apparent that the promotion of agriculture, and if possible, the augmentation of agricultural products should be one of the first considerations in the formulation of a national policy.

Japan is poorly provided with raw materials and is compelled to import them on an increasing scale. Mineral resources are equally limited in volume if not in variety.

Consumption of raw materials by industries in Japan corresponds to more than 60% of the domestic industrial output, and about 27% of them is supplied from abroad. The total imports of raw materials and semi-finished products increased from about 70% in 1929-31 to almost 80% of total imports in recent years, and it is essential that this increment be balanced by a corresponding augmentation in the exports of finished articles made from those raw materials. On the average, Japan exports about 15% of her total domestic production, and about 21% of her industrial output of finished articles. Consequently, the future development of industries must be paralleled by an increasing importation of raw materials and an advance in the export of finished products.

Self-sufficiency in raw materials to the greatest possible degree is naturally desirable, but efforts in this direction must be made on a basis compatible with the smooth development of national industries. An economy based on self-sufficiency would be of great value in periods of emergency, but could not survive in Japan in normal times. as an alternative, the enhancement of the human factor in industry, notably the increase of labour efficiency and scientific achievement, becomes of paramount importance. Internationally, Japan must aim at economic development on the basis of international co-operation and reciprocal trade, and remain aloof from the tendency toward economic nationalism now rampant throughout the world.

The question of future capital supply also requires some consideration. A scarcity of capital in the past has often hampered industrial development, and high interest charges on debentures have been a great burden to national industry. Although money rates have gradually been lowered in recent years, yet the average rate on debentures during 1935 was 4.5%, which is still high compared with those in Great Britain and the United States. The demand for capital is bound to increase concurrently with the expansion of population and industry. The amount of industrial capital which will be required in the future is roughly estimated at a minimum of about 1,200 to 1,500 million yen annually.

The establishment of a concrete policy relating to overseas trade will also require attention. There has been a tendency in some quarters to consider the attainment of an excess of exports as the principal object of foreign trade.



It would be more correct to formulate foreign trade policy as an adjunct to the development of national industries, and such a policy would inevitably serve to expand exports. The overseas trade of Japan, in spite of its recent development, accounts for only 3.3% of international trade. The export value per capita of population was about ¥36.00, which is extremely low in comparison with those of other leading industrial countries.

Textile manufactures constitute at present the greatest part of the Japanese export trade. The future expansion of this trade, which is indispensable to the Japanese national economy, will depend to a large extent on the ability of Japanese industry to compete in other finished products, particularly machinery and chemical manufactures. Even more than in the past, the direction of Japanese trade expansion is bound to be towards East and South Asia, as these regions are important sources of raw materials and offer the best prospects for reciprocal trade.

EXCERPT FROM PAGES 637-640.